350

Agriculture

Budget function 350 covers programs administered by the Department of Agriculture, including such activities as agricultural research and stabilization of farm incomes through loans, subsidies, and other payments to farmers. CBO estimates that discretionary outlays for function 350 will total $4.5 billion in 2000. Mandatory outlays for the function will increase to an estimated $24.1 billion in 2000—from $7.9 billion in 1998—because of depressed commodity prices and provisions of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Act for Fiscal Year 2000.

Federal Spending, Fiscal Years 1990-2000 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Estimate 2000
Budget Authority (Discretionary)	2.7	3.1	4.5	4.3	4.4	4.0	4.2	4.2	4.3	4.5	4.5
Outlays											
Discretionary	2.6	2.8	4.2	4.3	4.4	4.0	4.1	4.1	4.3	4.6	4.5
Mandatory	9.3	12.4	11.0	16.1	10.7	5.8	5.0	5.0	7.9	18.4	24.1
Total	12.0	15.2	15.2	20.4	15.0	9.8	9.2	9.0	12.2	23.0	28.5
Memorandum:											
Annual Percentage Change in Discretionary Outlays		6.6	49.2	1.9	3.1	-8.5	3.1	-1.5	6.3	5.5	-2.5

350-01 Reduce Federal Support for Agricultural Research and Extension Activities

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	186	122
2002	186	166
2003	186	182
2004	186	183
2005	186	183
2001-2005	930	836
2001-2010	1,860	1,751
Relative to WIDI		
2001	191	125
2002	196	174
2003	200	194
2004	205	200
2005	210	205
2001-2005	1,002	898
2001-2010	2,129	1,998

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

270-01, 270-02, 270-03, 270-04, 270-10, and 350-04

The Department of Agriculture (USDA) conducts and supports agricultural research and education. In particular, the Agricultural Research Service, the department's internal research arm, focuses on maintaining and increasing the productivity of the nation's land and water resources, improving the quality of agricultural products and finding new uses for them, and improving human health and nutrition. Those activities raise questions about the appropriateness and effectiveness of federal involvement. The Cooperative State Research, Education, and Extension Service (CSREES) participates in a nationwide system of agricultural research and educational program planning and coordination between state institutions and USDA. CSREES also takes part in the Cooperative Extension System, a national educational network that combines the expertise and resources of federal, state, and local partners. The Economic Research Service carries out economic and other social science research and analysis for public and private decisions about agriculture, food, natural resources, and rural America.

The 1999 appropriations for those three USDA units total $1.9 billion. Reducing the funding by 10 percent would save $836 million in outlays from 2001 to 2005 and about $1.8 billion from 2001 to 2010.

Federal funding for agricultural research may, in some cases, replace private funding. If federal funding was eliminated in those instances, the private sector would finance more of its own research. Moreover, federal funding for some extension activities under CSREES could be reduced without undercutting its basic services to farmers. For example, funding for the Nutrition and Family Education and Youth at Risk Programs totaled $68 million under the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act for Fiscal Year 2000.

Opponents of reducing funding for research and extension activities argue that the programs play important roles in developing an efficient farm sector. Reducing federal funding could compromise the sector's future development and its competitiveness in world markets. If the private sector assumed the burden of funding, agricultural research, which contributes to an abundant, diverse, and relatively inexpensive food supply for U.S. consumers, could decline. Moreover, some federal grants are used to improve the health of humans, animals, and plants by funding research that promotes better nutrition or more environmentally sound farming practices. If federal funding was cut back, the public might have to bear some of that cost in higher prices, forgone innovations, and environmental degradation.

350-02 Reduce Department of Agriculture Spending for Export Marketing and International Activities

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	31	21
2002	31	28
2003	31	31
2004	31	31
2005	31	31
2001-2005	155	142
2001-2010	310	297
Relative to WIDI		
2001	32	22
2002	33	30
2003	34	33
2004	34	34
2005	35	35
2001-2005	168	154
2001-2010	358	344

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

150-03, 350-06, and 350-09

The Department of Agriculture (USDA) promotes exports and international activities through the programs of the Foreign Agricultural Service (FAS). For example, in the Foreign Market Development Cooperator Program, FAS acts as a partner in joint ventures with "cooperators," such as agricultural trade associations and commodity groups, to develop markets for U.S. exports. FAS also collaborates on other ventures, one of which, the Cochran Fellowship Program, provides training to foreign nationals with the objective of improving commercial relationships that will benefit U.S. agriculture. Eliminating funding for those two programs would reduce outlays by $142 million over the 2001-2005 period and $297 million over the 2001-2010 period.

The Foreign Market Development Cooperator Program, also known as the Cooperator Program, typically promotes generic products and basic commodities, such as grains and oilseeds, but the program also covers some high-value products, such as meat and poultry. Some critics of the program argue that cooperators should bear the full cost of foreign promotions because the cooperators benefit from them directly. (How much return, in terms of market development, the Cooperator Program actually generates or the extent to which it replaces private expenditures with public funds is uncertain.) Some observers also cite the possibility of duplicative services because the USDA provides funding for marketing through its Market Access Program and other activities.

Eliminating the Cooperator Program, however, could place U.S. exporters at a disadvantage in international markets, depending in part on the amount of support other countries provide to their exporters. Regarding the issue of duplicative services, some advocates note that the Cooperator Program is distinct from other programs in part because it focuses on services to trade organizations and technical assistance. People concerned about U.S. exports of generic products and basic commodities consider the program useful for developing markets that could benefit the overall economy.

The Cochran Fellowship Program brings foreign midlevel managers to the United States for training in agriculture and agribusiness. Although the program is popular among recipients and their sponsors, its direct benefits to U.S. agriculture are unknown; thus, it may be marginally valuable to taxpayers. However, eliminating the Cochran Fellowship Program could hurt U.S. agriculture to the extent that the program builds commercial relationships, introduces foreign professionals to U.S. products, and creates new opportunities for U.S. exports.

350-03 Reinstate Assessments on Growers, Buyers, and Importers of Tobacco

	Savings (Millions of dollars) Budget Authority	Outlays
2001	8	8
2002	29	29
2003	30	30
2004	30	30
2005	30	30
2001-2005	127	127
2001-2010	277	277

SPENDING CATEGORY:

Mandatory

The federal government aids tobacco producers by supporting domestic tobacco prices above world-market levels. That support involves a combination of marketing quotas, price-supporting loans, and restrictions on imports. The support program benefits about 125,000 growers and 300,000 holders of marketing quotas and allotments. Some quota holders actually raise tobacco, and some rent their quota to others. For producers, tobacco is an important source of income, particularly in some states. The value of the 1998 tobacco crop was estimated at $2.8 billion. The crop is produced in 16 states, and about two-thirds of its acreage lies in North Carolina and Kentucky.

Tobacco is a controversial crop because of the health hazards of smoking, and federal support for producers has also been controversial. The price support program has been modified over time to reduce its costs to the taxpayer, even though it does nothing to encourage tobacco use. In fact, it raises the price of tobacco products to U.S. consumers but by a small amount. The Department of Agriculture has estimated that the program may increase the price of a pack of cigarettes by less than 2 cents.

The cost of the tobacco price support program varies from year to year. The program may have substantial outlays in a given year, but if it functions as intended, it should have no net cost to the government over time. The reason is that growers and purchasers of tobacco contribute to "no-net-cost accounts" that are used to reimburse the government for costs (excluding administrative costs) of the price support program. Starting with the 1991 crop, growers and purchasers each paid an additional assessment of 0.5 percent of the value of sales (for a total collection of 1 percent of sales). Those assessments, which were introduced to reduce the costs of federal farm programs and cut net federal outlays, expired with the 1998 tobacco crop. A related assessment on imported tobacco expired at the end of calendar year 1998. This option would reinstate those assessments beginning with the 2001 crop. Doing so would bring in receipts of $127 million over the 2001-2005 period.

The main benefit of reinstating the assessments is reducing net federal outlays. Proponents argue that the price support program gives tobacco producers substantial benefits and that the assessment recoups a portion of those benefits for the taxpayer. Opponents would argue that since the tobacco program costs the government little, assessments are unfair.

350-04 Eliminate Mandatory Spending for the Agricultural Research Activities of the Fund for Rural America and the Initiative for Future Agriculture and Food Systems

	Savings (Millions of dollars) Budget Authority	Outlays
2001	300	30
2002	150	105
2003	150	150
2004	0	150
2005	0	105
2001-2005	600	540
2001-2010	600	600

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

350-01

The Federal Agriculture Improvement and Reform Act of 1996 (FAIR) established the Fund for Rural America as a mandatory program to support rural communities nationwide. FAIR provided funds through fiscal year 2000. The Agricultural Research, Extension, and Education Reform Act of 1998 (Public Law 105-185) provided additional funds through 2003. Currently, $120 million is available for research activities of the Fund for Rural America for the 2001-2003 period.

In addition, the Agricultural Research, Extension, and Education Reform Act of 1998 created and provided mandatory funding for the Initiative for Future Agriculture and Food Systems as a competitive grants program supporting research, extension, and education activities in critical emerging areas. Administered by the Department of Agriculture's (USDA's) Cooperative State Research, Education, and Extension Service (CSREES), the initiative was mandated to receive $480 million through fiscal year 2003 to target food genome research, food safety, human nutrition, alternative uses for agricultural commodities, biotechnology, and precision agriculture. Eliminating those activities would reduce direct spending by $600 million from 2001 to 2010.

Mandatory funding is usually reserved for entitlement programs, for which funding needs may be too immediate or undisputed to warrant annual review by the Congress in the appropriation process. Supporters of this option argue that the programs should hardly be grouped with other entitlements and should be left where they have always been: as part of USDA's discretionary funding budget. Because providing the programs with mandatory funds may avoid the spending jurisdiction and annual review of the appropriations committees, supporters of the option argue that the programs do not necessarily provide funding for intended activities. In addition, they argue, existing discretionary programs can meet the goals of the agricultural research programs. Furthermore, they contend that federal funding for agricultural research may, in some cases, replace private funding. If federal funding was eliminated in those instances, the private sector would finance more of its own research.

Opponents of this option argue that reducing federal funding could compromise U.S. agriculture's future development and its competitiveness in world markets at a time when changes in commodity programs make producers' economic viability more dependent than before on world markets. They also argue that the programs are necessary to address future food productivity, environmental quality, and farm income.

350-05 Limit Future Enrollment of Land in the Department of Agriculture's Conservation Reserve Program

	Savings (Millions of dollars) Budget Authority	Outlays
2001	8	8
2002	132	132
2003	232	232
2004	321	321
2005	337	337
2001-2005	1,030	1,030
2001-2010	5,432	5,432

SPENDING CATEGORY:

Mandatory

The Conservation Reserve Program promotes soil conservation, improves water quality, and provides wildlife habitat by removing land from active agricultural production. Landowners contract with the program to keep land out of production, usually for a 10-year period, in exchange for annual rental payments. Such land is referred to as "enrolled" in the program. The federal government also pays part of what farmers spend to establish approved cover crops on the land. The Department of Agriculture's (USDA's) Commodity Credit Corporation funds the program and spends about $1.5 billion per year on it. The program now has roughly 30 million acres enrolled; the law limits enrollment to a total of 36.4 million acres. The Congressional Budget Office baseline assumes that future net enrollments of land will reach the limit by 2009. Stopping new enrollments beginning October 1, 2000, would reduce outlays by $1 billion over the 2001-2005 period and by $5 billion over the 2001-2010 period.

Some critics of the Conservation Reserve Program see it as corporate welfare—unnecessarily and inefficiently supporting farm income. Others see it as an expensive and poorly focused conservation program and believe that other uses of the money would yield greater environmental benefits. Still other critics worry about the loss of economic activity in areas where much crop land is retired. Demand for seed, fertilizer, and other farm supplies drops in such areas, hurting rural communities.

The Conservation Reserve Program enjoys widespread support, however. Landowners appreciate the payments, which often exceed profits from continued agricultural production and are more certain. Conservationists and environmentalists recognize the program's benefits and note USDA's plans to accept the most environmentally sensitive land in future enrollments. Those plans involve special provisions for enrolling land devoted to the most effective conserving practices such as the use of filter strips, grass waterways, and riparian buffers. Those and several other practices yield high returns per dollar spent in enhanced wildlife habitat, improved water quality, and reduced soil erosion. In fact, even most critics of the program recognize the need to take at least some environmentally sensitive land out of production for some time.

350-06 Eliminate Attaché Positions in the Foreign Agricultural Service

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	29	20
2002	39	33
2003	39	38
2004	39	39
2005	39	39
2001-2005	185	169
2001-2010	380	364
Relative to WIDI		
2001	30	20
2002	41	35
2003	42	41
2004	43	43
2005	44	44
2001-2005	200	183
2001-2010	440	420

SPENDING CATEGORY:

Discretionary

RELATED OPTIONS:

350-02 and 370-02

U.S. agricultural attachés, located at 97 offices worldwide, provide U.S. agricultural producers and traders with information on foreign government policies, supply and demand conditions, commercial trade relationships, and market opportunities. That information is an integral part of the market forecasting and analysis system of the U.S. Department of Agriculture (USDA). The attachés, employed by the Foreign Agricultural Service of the USDA, also represent that department in disputes and negotiations with foreign governments on agricultural issues. The attaché positions were developed to promote U.S. commodities and to help U.S. farmers, processors, distributors, and exporters adjust their operations and practices to meet world conditions. This option would eliminate the attaché positions and reduce outlays by $169 million from 2001 to 2005 and $364 million from 2001 to 2010.

Proponents of eliminating the attaché positions argue that the federal government should not be collecting and distributing information that directly aids large private traders of agricultural commodities and products. Instead, they argue, private firms could collect such information. In addition, Department of State or Commerce personnel could assume the attachés' other functions. Although trade is vitally important to U.S. agriculture, according to that argument the industry no longer warrants the special treatment it receives.

Opponents of eliminating the agricultural attaché positions contend, however, that because attachés represent the U.S. government, they have more access to information than representatives of private firms would have. Opponents also maintain that if agricultural producers and traders do not receive quality agricultural information in a timely manner, the sector's responsiveness to changes in world demand for U.S. products could be compromised. Finally, USDA uses information collected by attachés in conducting its analyses. If the attachés no longer provided such information, USDA might have to purchase it; without it, USDA would have difficulty conducting policy analyses.

350-07 Reduce the Reimbursement Rate Paid to Private Insurance Companies in the Department of Agriculture's Crop Insurance Program

	Savings (Millions of dollars) Budget Authority	Outlays
2001	28	26
2002	30	30
2003	31	31
2004	32	32
2005	33	33
2001-2005	154	152
2001-2010	338	334

SPENDING CATEGORY:

Mandatory

The Federal Crop Insurance Program protects farmers from losses caused by drought, floods, pests, and other natural disasters. Insurance policies that farmers buy through the program are sold and serviced by private insurance firms, which receive an administrative cost reimbursement according to the total amount of insurance premiums they handle. Firms also share underwriting risk with the federal government and can gain or lose depending on the value of crop losses relative to claims made. Overall, the companies typically gain.

The General Accounting Office (GAO) has widely studied the crop insurance program and, in particular, the amount paid to the firms that service and sell the insurance policies. In a 1997 study, GAO concluded that the amount the program has paid the firms has historically exceeded the reasonable expenses of selling and servicing the crop insurance. Partly on the basis of that information, the 105th Congress cut the reimbursement rate for the benchmark crop insurance plan from 27 percent of premiums to 24.5 percent (with comparable reductions for other plans). This option would further reduce the benchmark rate to 22.5 percent, resulting in savings of $334 million over the 2001-2010 period.

Arguments for cutting the reimbursement rate hinge on the belief that the 105th Congress could have cut the reimbursement rate more deeply without substantially affecting the quantity or quality of services provided to farmers. In addition to relying on GAO's analysis, proponents of further cuts point to the dramatic expansion in business that followed enactment of the Federal Crop Insurance Reform Act of 1994. Total insurance in force for 1999 totals about $30 billion, which is over twice that of the early 1990s. Total premiums grew correspondingly, but because of economies of scale, the costs of selling and servicing the policies probably grew by less. Thus, proponents argue, the program could tolerate further cuts. Finally, even if cuts caused firms to curtail some services to farmers, proponents claim that the results would not be catastrophic or irreversible.

The industry argues, however, that the cuts enacted last year will impair its ability to sell and service insurance and will threaten farmers' access to insurance. If farmers lack insurance, the industry argues, the Congress would more likely resort to expensive, special-purpose disaster relief programs when disaster strikes, negating any apparent savings from cutting the reimbursement rate. That argument—perhaps made more forcefully—applies to any further program cuts. Moreover, falling crop prices reduce total premiums (and reimbursements) but hardly affect companies' costs. Cutting reimbursement rates would further reduce company profits, making it harder for them to maintain the services now provided to farmers.

350-08 Eliminate Public Law 480 Title I Sales and Limit the Secretary of Agriculture's Authority

	Savings (Millions of dollars) Budget Authority	Outlays
Relative to WODI		
2001	150	79
2002	150	138
2003	150	146
2004	150	146
2005	150	146
2001-2005	750	655
2001-2010	1,500	1,385
Relative to WIDI		
2001	152	80
2002	155	142
2003	158	153
2004	160	155
2005	163	157
2001-2005	788	687
2001-2010	1,646	1,517

SPENDING CATEGORY:

Discretionary

RELATED OPTION:

150-03

The U.S. Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) was enacted to promote commercial exports of surplus agricultural commodities, foster foreign markets, and aid developing countries. The law included commodity sales for foreign currencies, concessional credit, and grants.

In the 45 years since the law was passed, the program may have become obsolete and inefficient. This option would eliminate sales under title I of the act beginning in 2001. It would also constrain authority provided by the Commodity Credit Corporation Charter Act of 1948 and other acts that allow the Secretary of Agriculture to use Commodity Credit Corporation or other funds to purchase and ship U.S. commodities abroad. Such constraints are necessary, some analysts believe, because without them, the Secretary of Agriculture could offset the effects of a cut in the program (a discretionary one) by using Commodity Credit Corporation or other funds (mandatory spending) to purchase and ship agricultural commodities. In fact, the Secretary used such authority in 1999 to provide more than $1 billion of food aid to Russia and other countries.

This option would reduce outlays by $655 million over the 2001-2005 period and by $1.4 billion over the 2001-2010 period. Title II of the act and section 416 of the Agricultural Act of 1949, which fund humanitarian and emergency feeding programs, would not be affected by this option.

The program's effectiveness in promoting agricultural exports is questionable for two reasons: exports under title I are a small portion of total U.S. agricultural exports, and the countries currently receiving those commodities are unlikely to become commercial customers. In fact, countries that receive commodities under title I are typically those in which the United States has a security or foreign policy interest rather than those likely to become commercial customers in the near term.

Providing assistance to developing countries is also a goal of the programs but may not always be an efficient use of U.S. resources. Many commodities that foreign countries buy with P.L. 480 assistance are resold to generate local currency. Those funds are used in turn to support local budgets and local development. But the inexpensive food may discourage local investment in agriculture, lower rural employment and income, and discourage the development of local stockpiles.

Supporters of title I argue that the programs are a flexible, fast means of providing assistance to friendly countries. They also note that the programs reduce the likelihood that agricultural surpluses will depress prices in the United States, and they stress the programs' humanitarian benefits: U.S. agricultural products are exported, and hungry people are fed.

350-09 Eliminate the Market Access Program

	Savings (Millions of dollars) Budget Authority	Outlays
2001	5	5
2002	73	73
2003	90	90
2004	90	90
2005	90	90
2001-2005	348	348
2001-2010	798	798

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

150-03 and 350-02

The Market Access Program (MAP), formerly known as the Market Promotion Program, was authorized under the 1990 Food, Agriculture, Conservation, and Trade Act to assist U.S. exporters of agricultural products. The program has been used to counter the effects of unfair trading practices abroad, but the Uruguay Round Agreements Act of 1994 eliminated the requirement that it be used for such purposes. Payments are made to partially offset the costs of market building and product promotion conducted by trade associations, commodity groups, and some profit-making firms. On the basis of current law, the Congressional Budget Office assumes that $90 million will be allocated annually for the program. Eliminating MAP would reduce outlays by $348 million over the next five years.

The program has been used to promote a wide range of mostly high-value products, including fruit, tree nuts, vegetables, meat, poultry, eggs, seafood, and wine. About 40 percent of MAP funding goes to promote brand-name products. The 1996 farm bill prohibits direct MAP assistance for brand promotions to foreign companies for foreign-produced products or to companies not recognized as small businesses under the Small Business Act, except for cooperatives and nonprofit trade associations.

Some critics of the program argue that participants should bear the full cost of foreign promotions because they benefit directly from them. (The extent to which the program has developed markets or replaced private expenditures with public funds is uncertain.) In addition, some critics note the possibility of duplication because the Department of Agriculture provides marketing funds through the Foreign Market Development Cooperator Program of the Foreign Agricultural Service and other activities. Many people also object to spending the taxpayers' money on advertising brand-name products.

Eliminating MAP, however, could place U.S. exporters at a disadvantage in international markets, depending in part on the amount of support provided by other countries. Responding to concerns about duplication, some MAP advocates note that the program differs from other programs partly because it focuses on foreign retailers and consumer promotions. People concerned about U.S. exports of high-value products consider the program useful for developing markets and benefiting the overall economy.